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MLB INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2003

smith
CHARTERED ACCOUNTANT

AUDITOR'S REPORT

To the Shareholders of
MLB Industries Inc.

I have audited the consolidated balance sheet of MLB Industries Inc. as at October 31, 2003 and 2002 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and cash flows, for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 15, 2004

CHARTERED ACCOUNTANT

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* Denotes David M. Smith Professional Corporation

MLB INDUSTRIES INC.

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31

	2003	2002
ASSETS		
CURRENT ASSETS:		
Accounts receivable	$ 53,595	$ 48,437
Inventory (Notes 2(b) and 3)	102,991	113,710
Prepaid expenses	5,744	4,300
	162,330	166,447
PROPERTY, PLANT & EQUIPMENT - (Notes 2(c) and 4)	29,671	37,472
GOODWILL (Note 2(e))	34,300	34,300
TOTAL ASSETS	$ 226,301	$ 238,219
LIABILITIES		
CURRENT LIABILITIES:		
Bank indebtedness (Note 6)	$ 30,213	$ 26,392
Accounts payable and accrued liabilities	109,780	69,614
Due to shareholders (Note 7)	28,657	4,500
Loans payable (Note 8)	63,364	100,951
Due to related parties (Note 7)	24,118	61,573
	256,132	263,030
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL - (Note 9)	4,437,266	4,313,766
CONTRIBUTED SURPLUS	7,080	7,080
DEFICIT	(4,474,177)	(4,345,657)
	(29,831)	(24,811)
	$ 226,301	$ 238,219

Committments - (Note 13)

APPROVED BY THE BOARD:

"Charles M. H. Stone" Director

Charles M. H. Stone

"Robin Ray" Director

Robin Ray

MLB INDUSTRIES INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED OCTOBER 31

	2003	2002
REVENUE	$ 1,039,752	$ 1,060,409
COST OF SALES	829,189	845,052
GROSS MARGIN	210,563	215,357
EXPENSES:		
Advertising	11,875	14,350
Automotive	9,103	7,793
Consulting fees	3,000	6,600
Licenses and taxes	303	215
Insurance	9,554	6,937
Interest and bank charges	5,238	13,681
Management fees	72,000	70,000
Office supplies	14,818	29,834
Professional fees	35,851	40,881
Rent	36,440	36,356
Repairs and maintenance	5,432	5,523
Salaries and benefits	88,292	82,598
Equipment rental	5,029	2,423
Telephone and utilities	18,058	19,287
Transfer agent	13,286	10,635
Travel	3,222	20,584
Amortization - Property, plant & equipment	7,582	13,220
Amortization - Deferred development costs	-	6,250
Amortization - Goodwill	-	7,645
	339,083	394,812
LOSS FROM OPERATIONS	(128,520)	(179,455)
OTHER ITEMS		
Write-down of deferred patent costs	-	(9,524)
Write-down of deferred development costs	-	(12,500)
	-	(22,024)
NET LOSS FOR THE YEAR	(128,520)	(201,479)
DEFICIT - beginning of year	(4,345,657)	(4,144,178)
DEFICIT - End of year	$ (4,474,177)	$ (4,345,657)
Basic and Fully Diluted Loss per share	$ (0.01)	$ (0.01)

MLB INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31

	2003	2002
OPERATING ACTIVITIES:		
Net loss for the year	$ (128,520)	$ (201,479)
Items not affecting cash		
Amortization of capital assets	7,582	13,220
Gain on settlement of debt	-	-
Amortization of deferred development costs	-	6,250
Amortization of goodwill	-	7,645
Write-down of deferred development costs	-	12,500
Write-down of deferred patent costs	-	9,524
	(120,938)	(152,340)
Change in assets and liabilities:		
Accounts receivable	(5,158)	2,188
Inventories	10,719	31,969
Prepaid expenses	(1,443)	(599)
Accounts payable and accrued liabilities	40,165	(42,462)
Cash flows from (used for) operating activities	(76,655)	(161,244)
FINANCING ACTIVITIES:		
Repayment to shareholders	-	(1,000)
Advances from shareholders	53,500	62,200
Repayment to shareholders	-	(1,000)
Repayment of loans payable	(60,880)	(29,409)
Advances on loans payable	20,000	-
Issuance of share capital	-	150,000
Advances from related parties	83,300	92,954
Repayment to related parties	(23,089)	(123,216)
Cash flows from (used for) financing activities	72,831	151,529
INVESTING ACTIVITIES:		
Purchase of capital assets	-	(5,142)
Cash flows from (used for) investing activities	-	(5,142)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,824)	(14,857)
BANK INDEBTEDNESS - Beginning of year	(26,392)	(11,535)
BANK INDEBTEDNESS - End of year	$ (30,216)	$ (26,392)
BANK INDEBTEDNESS - end of year consists of:		
Cash	$ 2,461	$ 885
Bank indebtedness	(32,677)	(27,277)
	$ (30,216)	$ (26,392)
Supplemental information:		
Income taxes paid	$ -	$ -
Interest paid	$ 5,049	$ 6,590

1. GOING CONCERN

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Company has an urgent need for equity capital and financing for working capital requirements. No agreements with lenders or investors have been reached and there is no assurance that such will take place.

Because of the operating losses of the past years and the working deficiency as at October 31, 2003, the Companies continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of operations and basis of consolidation

The Company operates as a distributor of synthetic lubricants. The consolidated financial statements have been prepared using the purchase method of consolidation, whereby the assets and liabilities of the acquired companies are initially recorded at their cost and the results of operation of the acquired companies are included from the dates of acquisition. The financial statements include the accounts of it's wholly-owned subsidiary Hayshed Trailers Ltd. (Hayshed), a trailer manufacturer. The consolidated financial statements also include the accounts of it's wholly-owned subsidiary O.S.R. Systems Ltd. (O.S.R.) and O.S.R.'s wholly-owned inactive subsidiary, Petroclearance Limited, a Bermuda corporation. O.S.R. holds a model of the Clean Ocean Vessel (COV) but to date has not had any sales of the product. The consolidated financial statements also include the accounts of it's 70% owned inactive subsidiary Mountain West Technologies Inc.

(b) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the average cost method.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

(c) **Property, Plant & Equipment**

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is recorded at the following annual rates:

Office equipment & Equipment	-	20% declining balance
COV Model	-	20% declining balance
Automotive equipment	-	30% declining balance
Leasehold improvements	-	Straight-line over expected term of lease

Amortization is charged at one-half of the annual rate in the year of acquisition or when the asset is placed in use.

(d) **Revenue recognition:**

Revenue is recognized upon shipment of products.

(e) **Goodwill**

Goodwill arose from the excess of purchase prices over fair market values of the net assets on the acquisition of subsidiaries. During the year the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants for Goodwill and Other Intangible Assets. As a result, goodwill will no longer be amortized to income but will be subject to an annual impairment review and should there be an impairment, that amount would be charged to income. No impairment charge was recorded for the year.

(f) **Income Taxes**

The Company follows the liability method of accounting for income taxes in accordance with the new standards of the Institute of Chartered Accountants. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax expense for the period is the tax payable for the period and the change during the period in future income tax assets and liabilities. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

2. **SIGNIFICANT ACCOUNTING POLICIES** - continued

(g) **Loss per share**

In 2002, the Company retroactively adopted the new Canadian accounting recommendations for the computation and disclosure of earnings per share. Under the new standard, the treasury method of calculating diluted earnings per share must be used. The method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period. Stock options were not taken into account in calculating diluted loss per share as the exercise price of the options was greater than the average market price of the common shares. The weighted average number of common shares outstanding for 2003 was 19,373,109 (2002 - 19,504,358).

(h) **Financial instruments**

i) The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company's financial instruments consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, amounts due to shareholders, loans payable and due to related parties. The fair value of financial instruments is not estimated by management to be materially different from the carrying value.

ii) The Company's financial instruments that are exposed to credit risk consist primarily of accounts receivable. The Company provides goods and services to customers based on an evaluation of the customer's financial conditions. Management closely monitors the exposure for credit losses.

iii) At October 31, 2003, the increase or decrease in net loss for each 1% change in interest rates on floating rate debt amounts to $302 (2002 - $1,142).

(i) **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statement and the amount of revenues and expenses recorded during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements.

(j) **Deferred patent costs**

Deferred patent costs represent costs to maintain a patent on the COV. The costs were written-off during the prior year as the patent life had expired.

(k) **Stock based compensation**

During the prior year, the Company adopted the intrinsic value method of accounting for stock-based compensation. Under this method, compensation expense is recognized for the excess, if any of the quoted market price of the Company's common shares over the common share stock option exercise price on the day that the options are granted. During the year, the Company did not grant any stock options. Consequently, no compensation expense for the granting of options has been recognized.

3. INVENTORY

Inventory consists of the following:	2003	2002
Raw Materials	$ 91,158	$ 105,432
Work in Progress	3,691	1,929
Finished Goods	8,142	6,349
	$ 102,991	$ 113,710

4. PROPERTY, PLANT & EQUIPMENT

	2003		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 21,384	$ 17,101	$ 4,283
Equipment	67,482	48,963	18,519
COV Model	14,251	12,099	2,152
Automotive equipment	27,157	22,440	4,717
Leasehold improvements	26,786	26,786	-
	$ 157,060	$ 127,389	$ 29,671

	2002		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 21,384	$ 15,702	$ 5,682
Equipment	67,482	44,333	23,149
COV Model	14,251	11,561	2,690
Automotive equipment	27,157	21,206	5,951
Leasehold improvements	26,786	26,786	-
	$ 157,060	$ 119,588	$ 37,472

5. DEFERRED DEVELOPMENT COSTS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Synthetic lubricant	$ 50,000	$ 50,000	$ -	$ -

The Company did not expend any funds on developing the synthetic lubricants during the periods presented. The recoverability of deferred development costs were uncertain and as such were written-off during the prior year. It was management's opinion that future royalties would not have been sufficient to recover these costs.

6. BANK INDEBTEDNESS

The company's bank indebtedness is due on demand with interest at prime plus 1% and is secured by a general security agreement on Hayshed.

7. DUE TO SHAREHOLDERS / RELATED PARTIES

	2003	2002
Due to shareholders	$ 28,657	$ 4,500
Due to a company controlled by the President of the Company	$ 24,118	$ 61,573

The advances from shareholders at October 31, 2003 are unsecured, bearing interest calculated at 8% per annum and due between November 12, 2003 and April 1, 2004. After maturity dates, any outstanding balance bears interest at 8%.

The advances from a company controlled by the President of the Company are unsecured, bearing interest calculated at 8% per annum without fixed terms of repayment.

All advances were for working capital purposes.

8. LOANS PAYABLE

	2003	2002
Equipment loan due to a related party	$ -	$ 60,880
Equipment loan	43,176	40,071
Equipment loan	20,188	-
	$ 63,364	$ 100,951

The equipment loan due to a related party of $Nil (2002 - $60,880) was owing to a company controlled by a director and was repayable at $3,000 per month including principal and interest at prime rate plus 1.5%, secured by certain inventory of Hayshed, with a carrying value of approximately $30,000. The loan was repaid in full during the year.

8. LOANS PAYABLE - continued

The equipment loan of $43,176 (2002 - $40,071) is repayable in monthly instalments of $907 per month including principal and interest at 7.75%, due November 2003. The loan is secured by certain inventory of Hayshed with a carrying value of approximately $30,000. At year-end, the loan was in default. Under the terms of the loan, the lender has the right to demand payment of principal and outstanding interest immediately upon default. As such, the entire loan balance has been classified as a current liability. The Company has been informed that the lender plans to proceed with collection actions.

Annual principal repayments are as follows:

2004	$	43,176

The equipment loan of $20,188 (2002 - $Nil) was repayable in full on February 11, 2004, including interest at 20% per annum and is secured by a promissory note. To date, payment has not been made and as such the entire loan balance is classified as a current liability.

9. SHARE CAPITAL

The Company is incorporated under the jurisdiction of the Canada Business Corporations Act.

(a) Authorized:
Unlimited number of common voting shares.
Unlimited number of Class B, 10% cumulative, redeemable, non-participating, non-voting preferred shares

(b) Issued:

Common shares	Number of shares	Stated value
Balance as at October 31, 2000	19,365,383	$ 3,921,221
Issued upon exercise of stock options	65,000	13,000
Returned to treasury upon escrow expiry	(1,700,000)	-
Balance as at October 31, 2001	17,730,383	3,934,221
Issued for settlement of debt	923,278	229,545
Issued for cash	600,000	150,000
Returned to treasury upon escrow expiry	(168,155)	-
Balance as at October 31, 2002	19,085,506	4,313,766
Issue for settlement of debt	1,235,000	123,500
Balance as at October 31, 2003	20,320,506	4,437,266

9. **SHARE CAPITAL** - continued

(c) Stock options:

As at October 31, 2003, options to purchase 1,030,000 (2002 - 1,340,000) common shares at $0.20 per share are outstanding. 160,000 options expired on November 25, 2002, without exercise. 150,000 oprtions were withdrawn on resignation of a former director. The outstanding options expire March 20, 2005.

On November 1, 2003 the Company issued 430,000 options to purchase common shares at $0.20 per share. The options expire October 31, 2005.

10. **RELATED PARTY TRANSACTIONS**

(a) Management fees

The Company paid management fees during the year ended October 31, 2003 of $72,000 (2002 - $70,000) to Charles M. H. Stone Investments Inc., a company controlled by the President of the Company. As at October 31, 2003 Charles M. H. Stone Investments Inc. was owed $20,000 (2002 - $34,000) of the fees, which is included in due to related parties.

(b) Royalties

A company controlled by a director received royalties during the year ended October 31, 2003 of $Nil (2002 - $486) from the sale of motor lubricants. An agreement between the Company, the director and the company controlled by the director requires the payment of a $0.50 per litre royalty on all future sales of the motor lubricants.

(c) Rent

Hayshed rents its plant from two shareholders who manage the existing operations. In 2003, Hayshed paid rent in the amount of $32,400 (2002 - $32,400) plus operating costs. Hayshed has not signed a lease for the premises and is renting on a month-to-month basis. Rent was recorded at fair market value.

(d) Delivery fees

Hayshed paid fees to a shareholder of the company for hauling trailers to customers. The fees paid in 2003 totalled $2,900 (2002 - $Nil). Hauling fees are recorded at fair market value.

(e) Sales revenue

During the year, companies controlled by a shareholder of the Company purchased parts at fair market value from Hayshed for total sales revenues of $4,500 (2002 - $2,733). Purchases are recorded at fair market value.

11. INCOME TAXES

The income tax differs from the amount computed by applying the Canadian federal statutory tax rates to loss before income taxes for the following reasons:

	2003	2002
Tax benefit at Canadian statutory rate	$ (48,837)	$ (79,826)
Increase (decrease) in taxes resulting from:		
Non tax based amortization	-	5,505
Expenses not deductible for tax purposes	-	3,341
Non-deductible write-downs	-	8,726
Tax benefit of accounting losses not recognized	48,837	62,254
Income tax benefit	$ -	$ -

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's future tax assets are as follows:

	2003	2002
Future tax liabilities:		
Differences in book basis and tax basis for goodwill	$ 8,731	$ 13,590
Total future tax liabilities	$ 8,731	$ 13,590
Future tax assets:		
Loss carry forwards	$ 397,408	$ 676,123
Differences in book basis and tax basis for goodwill	-	4,860
Differences in book basis and tax basis for property, plant & equipment	6,541	16,594
Total future tax assets	$ 403,949	$ 692,717
Net future tax assets	395,218	679,127
Valuation allowance	(395,218)	(679,127)
Net future tax asset	$ -	$ -

The Company has provided a valuation allowance for the full amount of net future tax assets in light of its history of operating losses since its inception.

The Company has capital losses carried forward for income tax purposes of $338,212.

10. INCOME TAXES - continued

The Company and its subsidiaries have losses in the amount of $1,045,808 which may be carried forward and applied against future taxable income. If these losses are not so applied, they will expire as follows:

2004	$ 202,340
2005	184,941
2006	198,166
2007	189,869
2008	122,862
2009	4,930
2010	142,700
	$ 1,045,808

12. SEGMENT DISCLOSURE

	MLB	Hayshed	OSR
Revenues from external customers	$ 2,035	$ 1,037,717	$ -
Interest expense	$ 694	$ 1,392	$ 3,152
Amortization of capital assets	$ 585	$ 6,437	$ 560
Segment profit (loss)	$ (136,056)	$ 14,248	$ (6,712)
Expenditures on capital assets	$ -	$ -	$ -

13. COMMITTMENTS, CONTINGENCIES & SUBSEQUENT EVENTS

Subsequent to year-end, the Company received approximately $63,000 from the bankruptcy trustee regarding the recovery of an investment that was written off in prior years.

The Company intends to issue 3,000,000 common shares by way of an offering memorandum. Each share will be issued for $0.20 for total maximum proceeds of $600,000. Proceeds from the offering will be used to build a COV and for working capital purposes.